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TO AMEMBASSY TOKYO PRIORITY

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E.O. 11652:N/A

TAGS: ENRG, JA

SUBJECT: ALASKA OIL: FEA REPORT

REF: TOKYO 17717 (NOT SENT OTTAWA)

1. FEA ADMINISTRATOR ZARB HELD BACKGROUND BRIEFING ON NOVEMBER 30 AND RELEASED EXECUTIVE SUMMARY OF REPORT ENTITLED QUOTE AN ANALYSIS OF THE ALTERNATIVES AVAILABLE FOR THE TRANSPORTATION AND DISPOSITION OF ALASKAN NORTH SLOPE CRUDE OIL UNQUOTE. THE STUDY ANALYZES THE CRUDE OIL SUPPLY AND DEMAND SITUATION ON THE U.S. WEST COAST FOR THE PERIOD 1978 THROUGH 1985; MAKES COST COMPARISONS OF ALTERNATIVE TRANSPORTATION SYSTEMS (PIPELINES, TANKERS, UNIT TRAINS); DISCUSSES ENVIRONMENTAL CONSIDERATIONS; AND MENTIONS FOREIGN TRADE WITH CANADA AND JAPAN AS A METHOD OF DEALING WITH THE EXPECTED SURPLUS OF ALASKAN CRUDE ON THE WEST COAST.

2. ACCORDING TO THE FEA STUDY, WHEN CONSTRUCTION OF THE TRANS ALASKA PIPELINE BEGAN IN 1973, IT WAS BELIEVED THAT ALL ALASKAN CRUDE WOULD BE ABSORBED ON THE WEST
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COAST. AFTER THE 1973 OIL EMBARGO, THE SITUATION CHANGED.

DEMAND GROWTH DROPPED FROM 5 PERCENT TO 2 PERCENT PER YEAR
AND OIL BECAME AVAILABLE FROM THE ELK HILLS RESERVE. AS
A RESULT, THE FOLLOWING SURPLUSES ARE EXPECTED:

	1978	1980	1985
ALASKAN PRODUCTION	1,300	1,700	1,900 TO 2,300
CALIFORNIA PRODUCTION	1,100	1,200	1,400
IMPORTS	500	300 TO 500	300 TO 500
TOTAL SUPPLY	2,900	3,200 TO 3,400	3,600 TO 4,200
TOTAL DEMAND	2,300	2,300	3,000
WEST COAST SURPLUS	600	900 TO 1,100	700 TO 1,000

FIGURES ARE IN THOUSANDS OF BARRELS PER DAY

3. FOLLOWING IS TEXT OF OPERATIVE PORTION OF REPORT
SUMMARY DEALING WITH FOREIGN TRADE OF ALASKAN CRUDE.
BEGIN QUOTE: UNDER THE MINERAL LANDS LEASING ACT, AS
AMENDED BY THE TRANS-ALASKA PIPELINE AUTHORIZATION ACT,
EXPORT IN PIPELINES OVER FEDERAL RIGHTS-OF-WAY IS FOR-
BIDDEN. THERE ARE TWO EXCEPTIONS TO, AND A POSSIBLE
WAIVER OF,
THIS PROHIBITION. IN THE CASE OF AN ADJACENT COUNTRY,
E.G., CANADA, THE OIL (1) MAY BE EXCHANGED FOR A SIMILAR
QUANTITY AT A CONVENIENCE OR TO INCREASE EFFICIENCY OF
TRANSPORTATION, OR (2) IT MAY BE TRANSPORTED ACROSS SUCH
A COUNTRY AND RE-ENTER THE U.S., AGAIN FOR CONVENIENCE OR
TRANSPORTATION EFFICIENCY. IF TRANSPORTATION OF THE CRUDE
OIL DOES NOT FALL WITHIN THESE TWO EXCEPTIONS, THE PRO-
HIBITION MAY BE WAIVED IF THE PRESIDENT FINDS THAT EXPORT
OF THE OIL WILL NOT DIMINISH THE TOTAL QUANTITY OR QUALITY
OF PETROLEUM AVAILABLE TO THE U.S., IS IN THE NATIONAL
INTEREST, AND IS IN ACCORD WITH THE PROVISIONS OF THE
EXPORT ADMINISTRATION ACT. ACCORDING TO THE STATUTE,
CONGRESS MAY OVERRIDE THE PRESIDENTIAL WAIVER DECISION
WITHIN 60 DAYS. THERE ARE ALSO REGULATORY SAFEGUARDS
WHICH ENSURE THAT EXCHANGE AGREEMENTS CANNOT BE USED TO
CIRCUMVENT U.S. CRUDE OIL PRICE CONTROLS.

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THERE ARE TWO COUNTRIES WITH WHICH THE EXCHANGE OF
ALASKAN OIL APPEARS FEASIBLE - CANADA AND JAPAN. AS
MENTIONED EARLIER, THE LACK OF DEMAND FOR NORTH SLOPE
TYPE CRUDES IN WESTERN AND CENTRAL CANADA LIMIT THE
POTENTIAL VOLUME OF DIRECT EXCHANGES WITH CANADA. THE
ANTICIPATED GROWTH IN DEMAND IN JAPAN FOR HEAVY CRUDE OIL
IMPORTS MAKES THAT COUNTRY A MORE LIKELY CANDIDATE FOR
EXCHANGES INVOLVING NORTH SLOPE CRUDE.

THE POTENTIAL EXCHANGE OF ALASKAN CRUDE OIL RAISES SERIOUS ENERGY POLICY ISSUES. FIRST, THERE IS AN OBVIOUS CONFLICT BETWEEN THE EXPORT OF DOMESTIC OIL AND THE

U.S. COMMITMENT TO REDUCED DEPENDENCE ON FOREIGN OIL IMPORTS AND TO ACHIEVE A GREATER DEGREE OF SUPPLY SECURITY.

SECOND, ALTHOUGH EXCHANGE AGREEMENTS WOULD NOT AFFECT THE U.S. "ENTITLEMENT" UNDER THE EMERGENCY SHARING PROGRAM OF THE INTERNATIONAL ENERGY AGENCY, SOME ALASKAN OIL MIGHT CONTINUE TO FLOW ABROAD IN THE EVENT THAT FOREIGN CRUDE PRODUCTION CUTBACKS WERE IMPOSED. WHILE THE U.S. WOULD BE RECEIVING COMPENSATING VOLUMES OF FOREIGN OIL, IT WOULD BE DIFFICULT TO JUSTIFY EXPORTS OF DOMESTIC (ESPECIALLY ALASKAN) OIL DURING AN EMBARGO.

THIRD, TO THE EXTENT THAT AN EXCHANGE AGREEMENT INCREASES THE VOLUME OF ARAB OIL MOVING TO THE U.S. MARKET, THE PROBABILITY AND THE POTENTIAL MAGNITUDE OF POLITICALLY MOTIVATED PRODUCTION CUTBACKS MAY BE INCREASED.

THE EXCHANGE ALTERNATIVE HAS BEEN PROPOSED BY SOME AS AN INTERIM SOLUTION TO THE DISPOSITION OF ALASKAN OIL THAT MIGHT RESULT IN SOME TRANSPORTATION ECONOMIES. THE SELECTION OF SUCH AN OPTION COULD REDUCE THE INCENTIVES TO EXPEDITIOUSLY DEVELOP THE TRANSPORTATION SYSTEMS NEEDED TO DELIVER OIL FROM PAD V TO CRUDE DEFICIENT AREAS OF THE UNITED STATES. ALASKA, THE PACIFIC OCS AREA, AND ENHANCED RECOVERY FROM EXISTING CALIFORNIA FIELDS REPRESENT IMPORTANT FUTURE OIL SUPPLY SOURCES WHICH MIGHT BE AVAILABLE TO MIDWESTERN AND EASTERN UNCLASSIFIED

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REFINERS IF TRANSPORTATION SYSTEMS ARE IN PLACE.

FINALLY, THE EXCHANGE OR EXPORT OF ALASKAN OIL IS NOT NECESSARY SINCE SUFFICIENT U.S. TANKERS EXIST TO CARRY ALASKAN NORTH SLOPE CRUDE OIL DIRECTLY TO U.S. PORTS. END QUOTE.

4. DURING BACKGROUND BRIEFING, ZARB WAS ASKED ABOUT EXPORTING ALASKAN CRUDE TO JAPAN. NO OFFICIAL TRANSCRIPT WAS MADE, BUT FOLLOWING PRESS QUOTE FROM DECEMBER 1 WASHINGTON POST IS CONSIDERED ACCURATE. BEGIN PRESS QUOTE: AN ALTERNATIVE SOLUTION, EXPORTING IT (ALASKAN OIL) TO JAPAN IN EXCHANGE FOR DIVERSION OF JAPAN'S PERSIAN GULF OIL TO EAST COAST REFINERIES, HAS BEEN SUGGESTED BY SOME OIL COMPANY EXECUTIVES.

HOWEVER, IN A PRESS CONFERENCE, FEA ADMINISTATOR
FRANK G. ZARB SAID "EVEN A SHORT-TERM EXCHANGE DOES NOT
APPEAR TO BE IN THE NATIONAL INTEREST BOTH FROM AN ENERGY
STANDPOINT AND NATIONAL SECURITY STANDPOINT."

IT WOULD MAKE THE UNITED STATES MORE VULNERABLE TO
ANOTHER ARAB OIL EMBARGO, HE SAID, BECAUSE IT WOULD BE
ALMOST IMPOSSIBLE, LOGISTICALLY AND DIPLOMATICALLY, TO
SUDDENLY SWITCH FROM EXPORTING THE OIL TO USING IT DO-
MESTICALLY.

"THE ARGUMENT THAT THE OIL COULD BE EXPORTED AND
THEN USED HERE IF THERE WERE AN EMERGENCY DOESN'T HOLD
UP UNDER ANAYSIS," ZARB ADDED.

5. FULL 800 PAGE DRAFT REPORT HAS BEEN CIRCULATED TO
OFFICIALS OF WEST COAST STATES AND INDUSTRY OFFICIALS.
REPORT CONTAINS NO REPEAT NO RECOMMENDATIONS. WHEN
COMMENTS ARE RECEIVED, FINAL REPORT WILL BE REFERRED TO
ENERGY RESOURCES COUNCIL FOR REVIEW. ERC IS EXPECTED TO
MAKE RECOMMENDATION TO PRESIDENT EARLY IN 1977. ERC
RECOMMENDATIONS WILL PROBABLY REQUIRE LEGISLATION. THERE-
FORE, FINAL DECISION ON DISPOSITION OF ALASKAN CRUDE IS
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